



The Virginia Capital Access Program

Program Manual

Virginia Small Business Financing Authority

Virginia Capital Access Program

Program Manual

I. Program Overview

Since 1998, the Virginia Small Business Financing Authority (VSBFA) has operated a statewide financing assistance program, known as the Virginia Capital Access Program (VCAP or the “Program”). The Program was modeled after similar successful programs in use in other states for many years.

The Program is designed to encourage banks operating in Virginia to make loans that they otherwise would not make due to their riskier profile. The Program offers lenders a flexible, non-bureaucratic tool to expand their market base and enhance their ability to meet the financing needs of Virginia's businesses. For the lenders who participate, the major benefits of the Program are its simplicity and flexibility. Decisions regarding the enrollment of loans in VCAP are made by lenders without approval or involvement from VSBFA. The loan enrollment is completed after the loan is made and involves a one-page form. Banks may provide term loans, lines of credit or both, and may enroll all or part of a loan.

From the state's perspective, VCAP is a judicious use of scarce resources. Since the Program is designed to lower risk on a portfolio of loans, a small amount of state funding can generate a significant incremental amount of bank financing. VSBFA's historical experience with this program has demonstrated that for each state dollar contributed, bank financing of \$33 is typically generated.

II. Program Mechanics

Unlike some government programs which provide a guaranty of a specific loan, VCAP is different in that the program utilizes an “insurance” concept on a portfolio of loans. Under the Program, each participating bank builds a loan loss reserve (the “Reserve Fund”) through fees collected from the bank/borrower and from VSBFA. A separate Reserve Fund is established for each participating bank, so the performance of any one participating bank will not affect the others. Moreover, the Reserve Fund is not specific to individual loans, but is used to offset all or part of a loss on any enrolled loan in a participating bank's VCAP loan portfolio.

A. Premium Payments

- Premiums are set by the participating bank at the time of loan enrollment, based on the bank's perceived level of risk for the loan.
- The bank and borrower each pay an equal premium, and *the combined bank and borrower's premium ranges between 3% and 7% of the enrolled loan amount*. For example, if the bank believes the loan to be risky, the bank may opt to charge a 7% enrollment fee – one-half of which, or 3.5% would be paid by the borrower, and one-half, or 3.5% would be paid by the bank.
- *However, the bank may opt to recover its portion of the premium payment from the borrower through higher interest rates or upfront fees.*
- At the time the bank notifies VSBFA of the loan enrollment, a matching premium is deposited by VSBFA into the bank's Reserve Fund.

- The more frequently the bank utilizes the Program, the larger the Reserve Fund becomes and the greater the protection the Fund affords by spreading the risk over a larger portfolio of loans.

B. Eligible Financial Institutions

Any federal or state chartered bank is eligible for participation in the Program. All participating banks must execute a VCAP Bank Participation Agreement and a Reserve Fund ac.

C. Eligible Loan Uses

To be considered **eligible** for enrollment, the **loan use** must:

- be used for an endeavor related to industrial, commercial or other business enterprise within the Commonwealth of Virginia;
- not be related to residential housing or passive real estate ownership;
- not refinance outstanding loans with the bank that were not originally enrolled under the Program, unless such refinancing increases the outstanding principal balance of the loan by 25% or more.

Eligible loan uses include:

- financing the acquisition of land;
- the construction or renovation of buildings;
- the purchase of equipment, other capital projects;
- working capital.

D. Eligible Loan Terms and Structure

The Virginia Capital Access Program gives lenders significant flexibility in structuring the loans they enroll under the Program. The lender decides which loans to cover under the Program, and the lender determines the interest rate, premium level, term, collateral requirements, and any other conditions of the loan.

Although the Bank may have a longer note maturity and amortization period, the maximum term the loan is covered under VCAP is ten (10) years from the date of enrollment. In any event, maturities should match the Borrower's ability to repay, and the life of the asset purchased.

Banks may extend lines of credit under the Program so long as the maximum amount of the line is enrolled under the Program.

Eligible loans can:

- be short-term or long-term;
- have fixed or variable interest rates;
- be secured or unsecured;
- be a line of credit or a term loan;
- bear any type of amortization schedule.

E. Loan Refinances

1. *Loans which refinance outstanding loans with the bank that were not originally enrolled under the Program are ineligible for enrollment*, unless such refinancing increases the outstanding principal balance of the loan by 25% or more.
2. In the event that *an enrolled loan is refinanced or restructured and no additional principal is advanced*, the enrolled loan may remain enrolled in the Program with no additional premiums payable by either the bank/borrower or VSBFA. In this case, it is not necessary to file an additional enrollment form with VSBFA.
3. In the event that *an enrolled loan is refinanced and additional principal is advanced*, the bank may file an enrollment form and pay a premium on that portion of the loan which is in excess of the original loan enrollment amount if the bank wishes to have that additional principal amount covered under the Program.

F. Maximum Enrolled Loan Size

The maximum aggregate outstanding loan amount(s) which may be enrolled for any single borrower, or any common enterprise in which the borrower has an ownership interest, is \$250,000.

G. Maintenance of the Reserve Fund

A separate Reserve Fund is maintained for each bank participating in the Program and the funds in that account are completely dedicated to covering losses on loans enrolled by that institution. All funds credited to the Reserve Fund are solely controlled by VSBFA and are owned by VSBFA.

1. Location of the Reserve Fund:

- For efficiency and administrative convenience, the Reserve Fund for participating banks will be established in the name of VSBFA and maintained at that bank.
- Reserve Fund accounts are to be interest bearing, and participating banks may not charge VSBFA for any fees related to VCAP loan transactions or for the maintenance of the Reserve Fund account.
- VSBFA will monitor Reserve Fund account activities and will deposit VSBFA's matching premium contributions to the Reserve Fund.
- ***The Reserve Fund accounts are public deposits pursuant to the Security for Public Deposits Act and must be indicated as such on the bank records. The bank is subject to the collateralization and reporting requirements of the Act.***

2. Uses of Accrued Interest:

- Interest income earned on the Reserve Fund will be credited to the account.
- VSBFA may withdraw at any time up to 50% of all interest or income credited to the Reserve Fund. VSBFA will utilize these funds to offset the administrative costs associated with operating the Program or to make future matching premium payments.

3. Excess Reserve Fund Withdrawal Procedures:

- If for 12 consecutive months the amount in a bank's Reserve Fund continuously exceeds the amount of that institution's existing VCAP loan portfolio, VSBFA may

withdraw any excess funds within this reserve so that the amount remaining in the reserve will be equal to the outstanding aggregate balance of existing VCAP loans.

- If a participating bank effectively discontinues using the Program and no additional loans are being enrolled, VSBFA will make withdrawals against the Reserve Fund as described above until all loans enrolled by the bank have been repaid. At that time, all remaining funds in the Reserve Fund account will be withdrawn by VSBFA.
- If a bank formally terminates its participation in the Program, the 12-month period noted above will not apply and VSBFA may withdraw excess funds from the reserve immediately.

4. Reserve Fund Bank Statement:

The bank is to submit to the VSBFA a monthly bank statement which reflects all activity for the period under the Reserve Fund within 10 days of the preceding month-end.

III. Program Procedures

A. Processing and Enrolling an Eligible Loan in VCAP

Prior to enrolling a loan in VCAP, the participating bank must:

1. Determine that the bank desires to use VCAP as the result of the proposed loan's riskier profile.
2. Approve the loan. (VSBFA does not participate in the approval decision.)
3. Establish the premium level, and calculate the fee based on the amount of the loan the bank wishes to enroll. (See also "Enrolling a Portion of the Loan" below.)
4. Collect the enrollment premium from the borrower.
5. Deposit the borrower's *and* bank's combined premium into the bank's Reserve Account.
6. Obtain the borrower's signature on the "VCAP Borrower Certification" form (see Exhibit 1). VSBFA does not require a copy of this form, but this form must be maintained by the Bank as part of the borrower's credit file.

To process and enroll an eligible loan under VCAP, the participating bank:

Submits, *within 5 business days after the bank originates the loan*:

- a completed VCAP Enrollment form (see attached Exhibit 2) to VSBFA, and
- a copy of the bank's deposit receipt for the enrollment premium.

A facsimile copy of the enrollment form and deposit receipt may be forwarded to (804) 225-3384, ATTN: VCAP ENROLLMENT.

When VSBFA receives a VCAP Enrollment Form:

- VSBFA reviews the form for completeness;
- Provides a written acknowledgment of acceptance to the bank; and,

- Transfers electronically the matching premium amount into the Reserve Fund account at the participating bank.
- If the enrolled loan is among the first \$1,000,000 in loans that the participating Bank has enrolled under the Program, VSBFA will provide a “double-match” that is twice the amount of the premium contributed by the borrower/bank, up to a maximum match of 14%. Likewise, if the Borrower of the enrolled loan is a Technology Company, VSBFA will provide a “double-match” that is twice the amount of the premium contributed by the borrower/bank, up to a maximum match of 14%.

B. Enrolling a Portion of a Loan:

In situations where lenders feel marginally comfortable with a prospective loan, the bank may enroll under the Program only that portion of the loan that it deems more risky. In this case, premiums are paid only on the portion of the loan the bank chooses to enroll.

In the event of default, the lender could recoup up to the enrolled amount of principal loss on the loan, plus accrued interest on that portion and documented out-of-pocket collection expenses.

By selecting this alternative, the bank and the borrower reduce the borrower's costs by reducing the premium payment that must be deposited into the Reserve Fund account and excess premiums are not paid for coverage that is not needed.

C. Filing of Program Reports

Participating banks are required to file a quarterly report with VSBFA within 10 days after the end of the calendar year quarter. The report will provide a listing of borrowers and the outstanding balances of all enrolled loans. Reporting dates and filing deadlines for these reports are as follows:

<u>Report Date</u>	<u>Filing Deadline</u>
March 31	April 10
June 30	July 10
September 30	October 10
December 31	January 10

In computing the outstanding balance of enrolled loans, the balance reported should be no greater than the enrolled amount of the loan. In the case of lines of credit, the outstanding balance should be considered to be the full amount of the line.

D. Filing a Claim under the Program

When a loan enrolled under the Program defaults, the participating bank shall determine when and how much of the enrolled loan to charge off. The lender may then file a loss claim form (see Exhibit 3) within 30 days of the charged-off of any part, or all, of the enrolled loan. The bank is entitled to recover principal, accrued interest and any reasonable collection expenses related to the charge-off loan. The bank should retain documentation in its files evidencing all expenses for which a claim is filed.

Should the bank file two or more claims contemporaneously, and if there are insufficient funds in the Reserve Fund account to cover the entire amount of the claims, the bank may designate the order of the priority in which VSBFA should pay the claims from the Reserve Fund account.

E. Payment of a Claim

Provided the bank has not made representations it knew to be false at the time of loan enrollment, VSBFA will promptly pay a claim, as submitted, from the Reserve Fund account. If there are insufficient funds in the Reserve Fund account to cover the entire amount of the bank's claim, VSBFA shall pay the bank an amount equal to the current balance of the Reserve Fund account, less any fund interest accrued to VSBFA. Such payment shall be deemed to fully satisfy the claim and the bank will have no future right to receive any amount from the Reserve Fund with respect to that claim.

F. Collection Rights and Recoveries Subsequent to a Claim

Participating banks may proceed with the claim process before exercising their collateral rights and taking legal action against the borrower on a charged-off loan. In any event, should the lender recover any amounts from the borrower subsequent to the payment of a claim, the bank must promptly return these monies, less any amount needed to cover out of pocket expenses incurred, to VSBFA for deposit in the Reserve Fund account.

G. Liability

All loans enrolled under the Program are private transactions between the borrower and the bank. VSBFA's responsibility lies in administering the Program and providing matching premium payments on VCAP loans. VSBFA is not a party to the loans and disclaims any liability in connection with the loans enrolled under VCAP.

By executing the Bank Participation Agreement, each participating bank represents that it understands the regulations and guidelines of the Program and warrants that it will comply with them as Program loans are enrolled. In addition, the bank acknowledges that VSBFA bears no liability to the bank beyond the funds which are deposited into the Reserve Fund account.

**VCAP Program Manual
Exhibit 1**

VCAP Borrower Certification Form

Notice to Borrower

This notice is provided to Borrowers who may receive a loan which has been enrolled in the Virginia Capital Access Program of the Virginia Small Business Financing Authority.

- Purpose:** The purpose of the Virginia Capital Access Program (VCAP) is to assist banks in making loans to borrowers that might not otherwise qualify for a conventional bank loan.
- Reserve Fund:** The program uses a Reserve Fund to assist banks in recovering losses on a portfolio of loans that a bank makes under the program. A non-refundable fee (reserve contribution) paid into the Reserve Fund by the borrower/bank is matched by the Virginia Small Business Financing Authority. The borrower has no legal, beneficial or equitable interest in any reserve contributions made to the Reserve Fund. While the program is intended to assist banks in providing businesses with access to bank financing, loans enrolled through the VCAP program are usually more expensive for borrowers than would be the case with a conventional bank loan because of the additional risks.
- Parties:** A loan enrolled in the VCAP program is a private transaction between the bank and the borrower. The Virginia Small Business Financing Authority is not a party to the loans and plays no role in the bank's decisions (i.e., approving or declining the loan, setting the terms and conditions, or enforcing the bank's rights under the loan contract). The bank's rights and remedies are described in the loan contract and in law applicable to any bank financing.

Representations by Borrower

The borrower (the "Borrower") hereby acknowledges the foregoing and, with respect to the credit facility described below, the Borrower makes the following representations and warranties to (the bank) :

- Borrower:** The Borrower is a corporation, partnership, joint venture, limited liability company, limited liability partnership, sole proprietorship, cooperative, or other entity, which is authorized to conduct business in the Commonwealth of Virginia. The Borrower(s) is not an executive officer, a director, or a principal shareholder of (the bank) , nor has a related interest in or is an immediate family member of an executive officer, director, or principal shareholder of (the bank) .
- Technology Borrowers:** The Borrower is a Virginia business which derives over fifty percent of its revenues from the research, development, fabrication, manufacturing, or marketing of products and applications which use or embody technology.
- Loan Enrollment:** The loan to the Borrower will be filed for enrollment by the bank in the Virginia Capital Access Program. As a condition of the Program enrollment, the Borrower is required to pay a non-refundable fee, which will be collected by the bank for transmittal into the Reserve Fund.
- Loan Purpose:** The loan proceeds will be used for business purposes within the Commonwealth of Virginia. They will not be used to finance housing or passive real estate ownership, which means the ownership of real estate for the purpose of deriving income from speculation, trade, or rental. It does not mean: 1) ownership of real estate being used or intended to be used for the Borrower's business operation, or 2) ownership of real estate for the purpose of construction or renovation during the construction or renovation phase.
- Waiver:** The Borrower hereby waives any right, claim or interest to any and all such funds paid or credited to the Reserve Fund from time to time.

(Borrower's Name)

By: _____

Title: _____

Date: _____

Credit Facility:

Note Date:	Account or Taxpayer ID No.:
Note Amount:	Covered Amount:
Other Outstanding Note(s) Amts. Covered, if applicable:	No. Jobs Created with Loan:
	No. Jobs Saved with Loan:

**VCAP Program Manual
Exhibit 2**

VCAP Loan Enrollment Form

Lender Information			
Participating Bank		Bank ID No.	
Authorized By		Phone No.	Fax. No.
Loan Officer		Phone No.	Fax. No.
Officer's Address		Date Submitted	
Borrower Information			
Applicant Name <i>(Please include DBA)</i>			
Complete Address <i>(Please include the city or county in which the Borrower is located)</i>			
Type of Business <i>(Please be specific: eg., Veterinary Clinic, Dental Practice, etc.)</i>		Is this a Technology Company? Yes ____ No ____	Tax Identification Number
Current Annual Sales	Current Number of Employees		
Borrower's Estimate of New Jobs Created as a Result of this Loan _____		Borrower's Estimate of No. of Jobs Saved as the Result of this Loan: _____	
<p>The information requested below is voluntary and for statistical purposes only.</p> <p>Gender of Majority Owner: Race: Hispanic: <input type="checkbox"/> Yes</p> <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Female <input type="checkbox"/> Male </div> <div> <input type="checkbox"/> White <input type="checkbox"/> Black <input type="checkbox"/> Native American <input type="checkbox"/> Asian <input type="checkbox"/> Hawaiian or Pacific Islander </div> </div>			
Loan Information			
Purpose			
Note Date	Maturity Date	Secured?	
Customer No.	Note No.	Loan Type	
Interest Rate (Please indicate) Fixed _____ Floating (please indicate index) _____			
Note Amt.	Covered Amt.	Amt. of Other Outstanding Enrolled Loans to Borrower:	
<i>Complete the following fields if refinancing an enrolled VCAP loan:</i>	Enrolled Balance Prior to Refinance:	New Total Covered Amt.:	
Reserve Information			
Percentage:	Borrower:	Bank:	VSBFA:
Amount:	Borrower:	Bank:	VSBFA:
VSBFA Acceptance			
% Borrower/Bank Payment _____ VSBFA Transfer Amount _____ Amount of Other Outstanding Enrolled Loans _____ <input type="checkbox"/> Verify Borrower/Bank Payment Received. <input type="checkbox"/> Verify Copy of Enrollment Completed by VSBFA & Returned to Bank.			
Virginia Small Business Financing Authority By: _____ Date: _____			

VCAP Program Manual
Exhibit 3

VCAP Claim Form

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1. Name of Bank: _____
 2. Name of Borrower: _____
 3. Borrower Customer No./ Note No.: _____
 4. Original Covered Amount of Loan at Enrollment: _____
 5. Outstanding Principal Balance of Loan: _____
 6. Amount of Claim
 - a. Principal _____
 - b. Accrued Interest _____
 - c. Out of pocket expenses _____Total Amount of Claim _____

Authorized Signature _____

Name and Title _____

Date _____